1980 Annual Report

Bralorne Resources Limited

CORPORATE INFORMATION

The Company

Bralorne Resources Limited is a diversified North American energy resource company with headquarters in Calgary, Alberta.

The company explores for and produces oil and natural gas in Western Canada and the United States. It is also a major manufacturer and supplier of products and services to energy-related industries world-wide.

Bralorne is organized into three operating groups and one division. There is a Manufacturing Group, a Service Group, a Supply Group, and an Oil and Gas Division.

At year-end 1980 Bralorne — through its divisions and subsidiaries — employed 3,200 people at more than 40 plants and offices around the world. Total wages, salaries and benefits paid to employees in 1980 amounted to $52.8 million. Comparable figures for 1979 are 2,240 employees and $31.9 million.

Annual Meeting

The annual meeting of the shareholders of the company will be held in the Bow Valley Square Auditorium, third floor, 205 - 5th Ave. S.W., Calgary, Alberta on Tuesday, April 28, 1981 at 2 p.m.

On the cover

The cover subject is a photograph of an employee at the Custom Structures' Spruce Grove plant. The unusual colors and texture of the picture were created by the technique of posterization. The photograph at right, on the highlights page, is a picture of a Jarco Services Ltd. tool component being hardened with heat at Barber Industries' Edmonton plant.

Officers

Peter Paul Saunders
Chairman of the Board

F. William Fitzpatrick
President and Chief Executive Officer

Donald H. Claughton
Group Vice President, Service

P. Stuart Grant, P.Eng.
Group Vice President, Manufacturing

Robert W. Hayes
Vice President, Administration

James R. Kelly
Group Vice President, Supply

William F. Limin, C.A.
Vice President, Finance

Harry C. Lowther, P.Geol.
Vice President and General Manager, Oil and Gas Division

Peter G. Wiseman
Secretary

William G. Crossley, C.A.
Treasurer

Executive Office

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Auditors

Price Waterhouse & Co.
Calgary, Alberta

Bankers

The Royal Bank of Canada
Calgary, Alberta

First City National Bank of Houston
Houston, Texas

Transfer Agent and Registrar

The Royal Trust Company
Vancouver, Toronto and Montreal

Co-Transfer Agent

The First Jersey National Bank
Jersey City, New Jersey

Directors

†Arthur F. Armstrong
Colorado Springs, Colorado
Vice Chairman and President
Velcro Industries, N.V.

*Douglas A. Berlis, Q.C.
Toronto, Ontario
Senior Partner, Aird & Berlis

†Ronald L. Cliff, C.A.
Vancouver, British Columbia
Chairman of the Board
Inland Natural Gas Co. Ltd.

*†F. William Fitzpatrick
Calgary, Alberta
President and Chief Executive Officer
Bralorne Resources Limited

P. Stuart Grant, P.Eng.
Calgary, Alberta
Group Vice President, Manufacturing
Bralorne Resources Limited

*John L. Kemmerer, Jr.
New York, New York
President, The Kemmerer Corporation

J. Ronald Longstaffe
Vancouver, British Columbia
Executive Vice President
Canadian Forest Products Ltd.

†Clifford S. Malone
Toronto, Ontario
President, Canron Inc.

George B. McKeen
Vancouver, British Columbia
President, McKeen & Wilson Ltd.

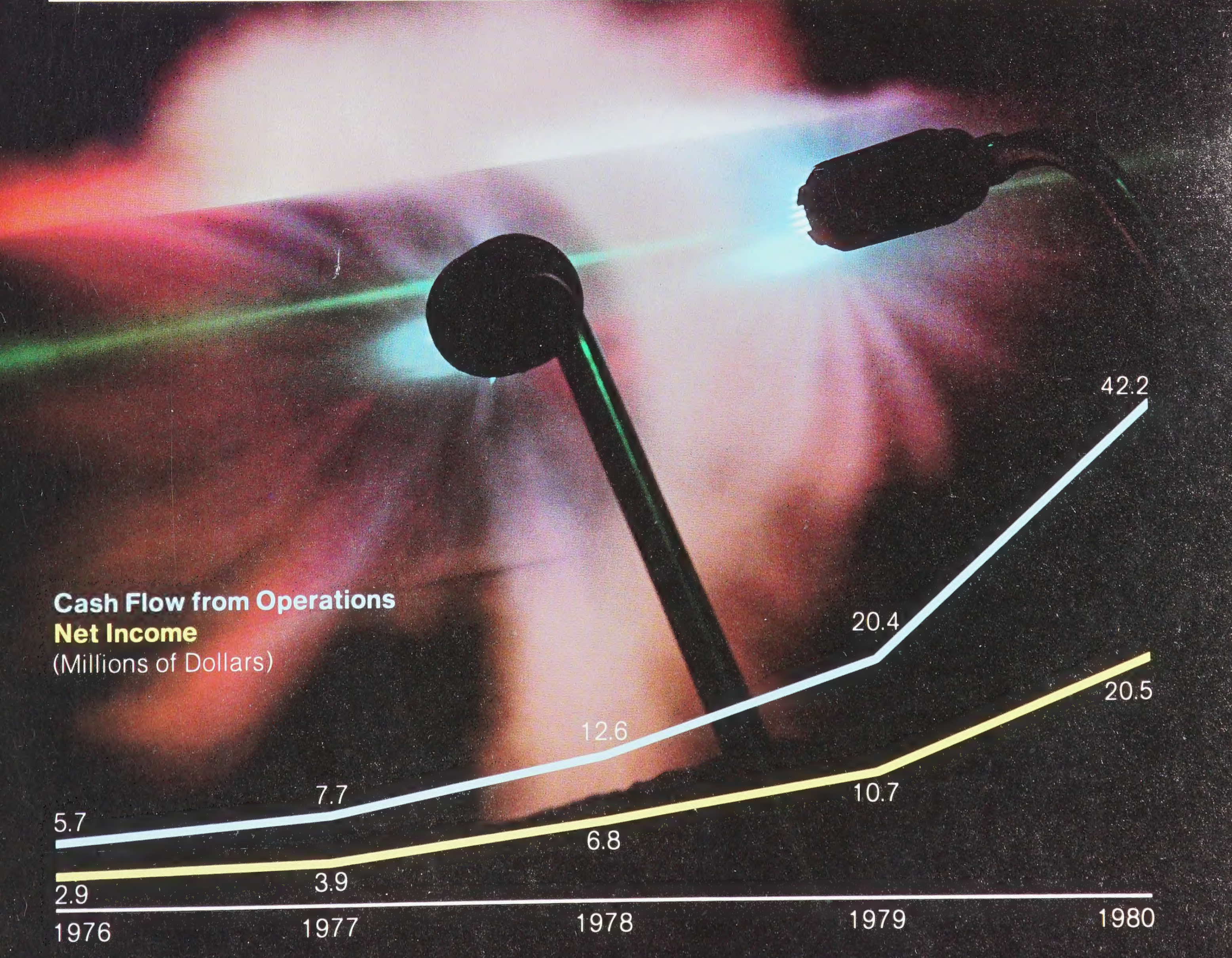
*Peter Paul Saunders
Vancouver, British Columbia
Chairman and President
Versatile Corporation

**Member, Executive Committee*
†Member, Audit Committee

Contents

1980 Highlights

	1980	1979
Gross revenue	**$240.0 million**	$140.7 million
Cash flow from operations	**$ 42.2 million**	$ 20.4 million
Per share	**$ 2.07**	$ 1.02
Net income	**$ 20.5 million**	$ 10.7 million
Per share	**$ 1.01**	$ 0.54
Shareholders' equity	**$ 63.6 million**	$ 41.9 million
Per share	**$ 3.10**	$ 2.09
Return on average shareholders' equity	**39%**	29%
Dividends	**$ 2.1 million**	$ 1.3 million
Per share	**10 cents**	7 cents
Natural gas reserves	**149 billion cubic feet**	100 billion cubic feet
Crude oil and natural gas liquids reserves	**1.7 million barrels**	1.0 million barrels



Directors' Report to the Shareholders

Bralorne Resources Limited had an excellent year in 1980. All sectors of the Company performed well, but the continued volume and revenue growth from our United States manufacturing facilities was particularly noteworthy. Also noteworthy was the success of our oil and natural gas exploration programs in Canada and the United States. The only truly sour note for the year was the announcement in October of the National Energy Program (NEP) and budget, which cast a shadow over the entire Canadian petroleum industry.

Financial highlights

Your Board of Directors is pleased to report that gross revenue for the Company was $239,964,000 in 1980, an increase of 71 per cent over the $140,700,000 of 1979. Cash flow from operations was $42,227,000 ($2.07 per share), 107 per cent more than the $20,396,000 ($1.02 per share) last year. Net income was $20,520,000 ($1.01 per share), 91 per cent more than the $10,726,000 (54 cents per share) in 1979. All per share figures reflect the 1980 three-for-one stock split.

One-third of the $100,000,000 revenue growth was due to acquisitions — the mid-year acquisition of Supreme Contractors, Inc., and the full year's revenue from Mark Products, Inc. acquired in mid-1979. The rest came from internal growth.

Once again the strongest performers were those supplying petroleum exploration products and services. United States subsidiaries were particularly successful. In 1980 more than 50 per cent of sales revenue came from the United States; by year-end that had grown to more than 55 per cent. Almost 60 per cent of operating profit was attributable to United States operations.

Net income growth was attributable to the impact of the United States subsidiaries' success, growth in the Canadian Service Group, improved natural gas sales at improved prices, and an unrealized foreign exchange gain.

The Company continues to work to increase the value of shareholders' investment through short-term growth in cash flow and net income, and through longer-term growth in oil and gas reserves and land asset values.

In 1980 the Company made a net additional investment of $8 million acquiring, exploring on, and developing its oil and gas properties (expenditures of $17 million less cash flow from producing properties of $9 million). At the same time the value of these holdings increased by an estimated $73 million based on a 12 per cent discount factor, or $52 million based on a 15 per cent discount factor.

At year-end 1980 the net book value of our oil and gas properties as reflected in the Company's Balance Sheet amounted to $42 million. Therefore we currently have an estimated unrecorded before-tax gain on oil and gas property values of $148 million based on a 12 per cent discount rate, or $106 million using a 15 per cent discount rate. A more detailed review of this asset growth is on Page 20.

During the second quarter a three-for-one stock split was authorized, and the Board of Directors increased dividends by 50 per cent, to a semi-annual 5 cents per share, payable to shareholders of

F. W. Fitzpatrick
President

record June 13 and December 10, 1980. Despite the increase — the second in two years — the Board's dividend policy remains one of reinvesting the major part of earnings, to strengthen the Company and your investment.

In the third quarter the Company completed a $40 million 15-year 12⅞ per cent fixed rate secured financing in Canada. Funds were used to retire existing medium-term and a portion of short-term Canadian bank financing, thus reducing the Company's vulnerability to fluctuating interest rates and strengthening the net working capital position.

Operating highlights

Corporate strategy continues to involve a combination of growth through internal expansion, and growth through acquisition of complementary businesses. Also — and perhaps most important at this time — we continue to pursue a strategy of geographical diversification, primarily directed

Peter Paul Saunders
Chairman

towards further involvement in the United States.

In terms of internal growth, the Company spent more than $25 million during the year on property, plant and equipment, and another $17 million on oil and gas interests.

Bralorne also made one acquisition in 1980. Supreme Contractors, Inc. of Lafayette, Louisiana joined the Service Group effective July 1. Supreme is an oil field service company specializing in road and drilling site preparation. It contributed substantially to second half results.

Outlook

Overall the outlook for 1981 is good. We are particularly optimistic about our prospects in the United States, but the situation in Canada is much more uncertain.

The NEP has hurt the Canadian petroleum industry. The stated objectives of the program are laudable — energy self-sufficiency, greater Canadianization of the petroleum industry, and establishment of a fair pricing and revenue-sharing regime. However, the provisions of the NEP, unless modified, will make self-sufficiency unlikely in this century; they confuse Canadianization with nationalization; and they have created a pricing and revenue-sharing situation that is anything but fair.

The result of all this has been, unfortunately, all too predictable. Numerous companies have announced cutbacks in planned exploration spending. Seismic activity is down. Pre-NEP forecasts calling for a record 10,000 wells to be drilled in 1981 have been reduced to forecasts of only 6,000.

When one looks at what is happening in the United States, the situation in Canada looks even bleaker by comparison. In the United States oil prices have been deregulated, return on oil or gas discovered is significantly higher than that available in Canada, and markets are available. As a result, the petroleum exploration business is booming.

Bralorne is a Canadian public company with approximately 79% of its shares held by Canadian residents. As such it qualifies for maximum incentives as currently outlined in the NEP.

Despite this so-called preferred position we remain highly skeptical of prospects in Canada and intend to restrict both plant and exploration expenditures to present commitment levels until such time as the political and economic climates are resolved.

We believe that the natural gas reserve potential of Western Canada is enormous and that additional gas exports are a necessary ingredient in the timely delineation and exploitation of this reserve potential. We believe, too, that the further development of export markets is in the national interest, both in terms of strengthening the economy in the short term and ensuring long-term reserves are available to optimize the displacement of oil consumption in the domestic market. Finally we believe most emphatically that the industry will not be prepared to make the necessary investments to ensure energy self-sufficiency until such time as the governments involved create the proper political and economic climate.

Such a climate does exist in the United States and we intend to further expand our involvement in that market. In 1981 we propose to allocate the majority of our plant and equipment spending to our United States facilities. Our Canadian oil and gas spending will be comparable to our 1980 spending, but our 1981 United States oil and gas spending will increase considerably over 1980.

We believe the overall outlook for the Company in 1981 remains good. We are not likely to duplicate the extremely rapid growth of 1980, but the outlook for 1981 nevertheless is still one of continued improvement.

Finally, the Directors would like to welcome new employees and organizations who have joined Bralorne during 1980, and to express their appreciation for the contributions all employees made during the year to the Company's continued success.

On behalf of the Board

Peter Paul Saunders

Peter Paul Saunders
Chairman

F. W. Fitzpatrick
President

March 6, 1981

Review of Operations

Oil and Gas Division

Increased natural gas sales at higher prices contributed to the doubling of Oil and Gas Division revenue and increased emphasis on exploration resulted in the drilling of a number of gas and oil discovery wells in Canada and in the United States.

Canada

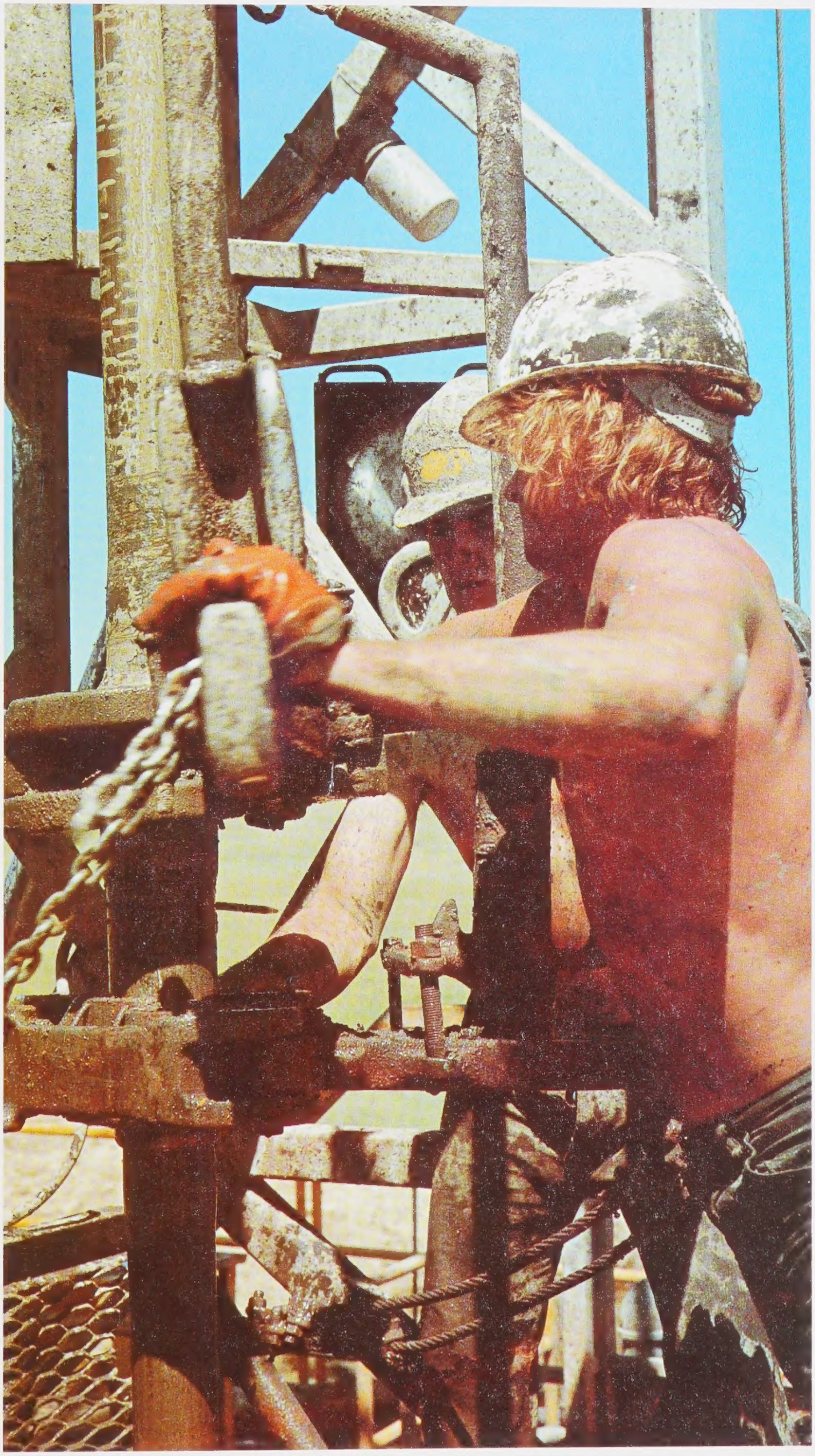
The Oil and Gas Division continued to pursue a two-part strategy of expanding cash flow and reserves within Alberta gas contract areas, and developing new reserves through land acquisition and exploratory drilling.

During 1980 the Division spent $13.9 million in Canada on land acquisition, geophysical, development and exploratory work. That compares to 1979 expenditures of $6.1 million.

Exploration

During 1980 the Company participated in the drilling of 17 gross (8.4 net) exploratory wells in Alberta; 11 (5.5 net) were successful gas completions and 2 (0.9 net) were oil completions.

Exploratory drilling at Dreau, Alberta just north of Donnelly: this well was drilled as part of the new joint venture



Development drilling at Medicine Hat, Alberta: one of 61 wells drilled there in 1980

One of the major areas of activity during the year was Donnelly, south of Peace River. The area was the scene of considerable activity, both by the Company and competitors, following a triple-zone gas discovery well drilled by Bralorne early in the year. Gas was tested from three formations and by mid-year three wells had been completed.

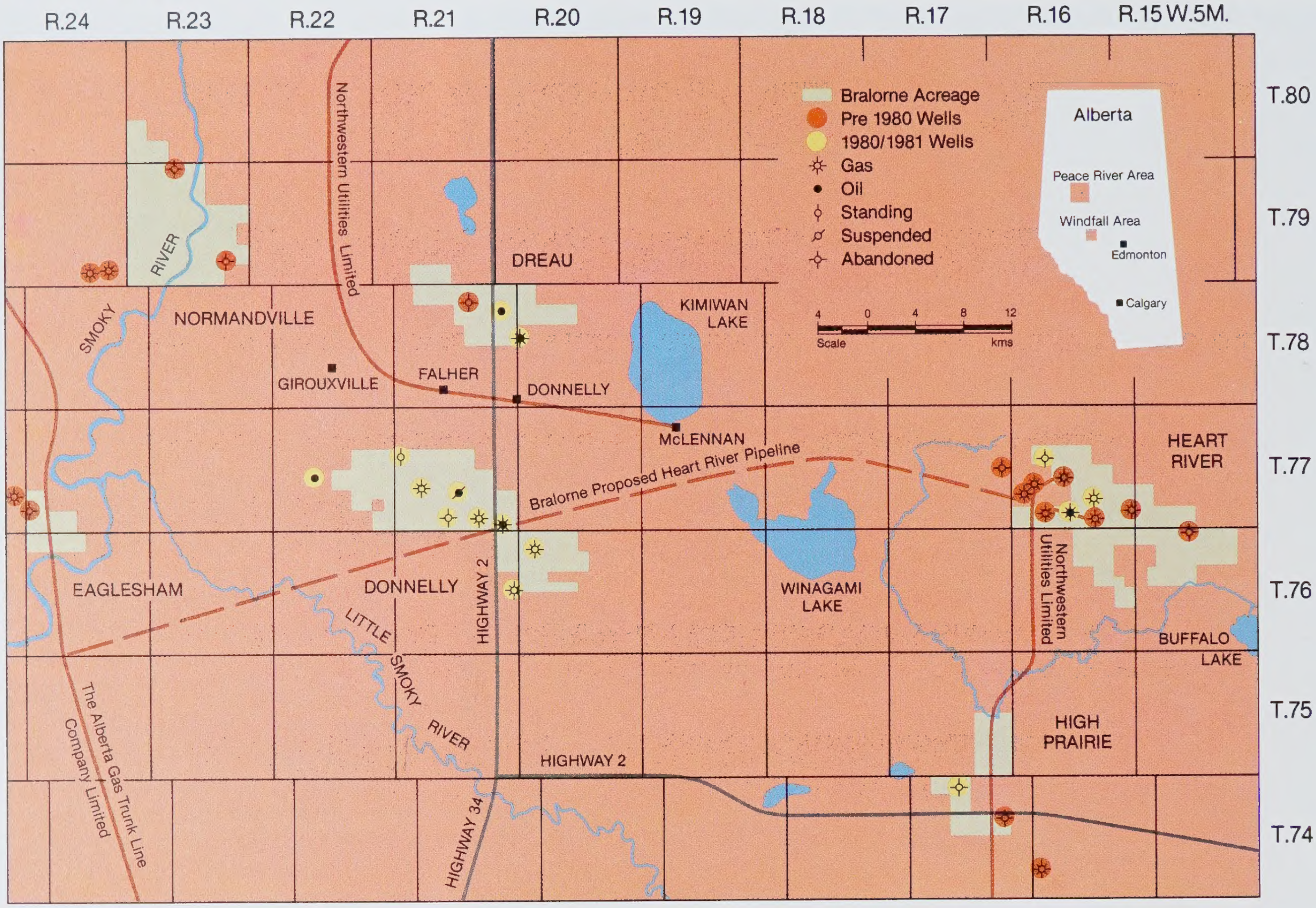
By year-end four additional wells had been drilled on the 24,000 acres (9 600 hectares) held by Bralorne (50 per cent interest) and partner, resulting in two more successful gas completions. Gas has now been tested in six separate formations at rates up to 7,600 thousand cubic feet per day (214 000 cubic metres per day), and oil has been recovered from two zones.

A well was drilled at Dreau, north of Donnelly, in the fourth quarter on 3,840 acres (1 536 hectares) acquired by Bralorne (42.85 per cent interest) and partners in July. It was completed as a low productivity oil well. The Company and partners subsequently were successful in acquiring an additional 6,720 acres (2 688 hectares) offsetting this discovery. Additional drilling on both licences is planned for 1981.

At mid-year a 2,720 acre (1 088 hectare) licence, offset by completed gas wells, was acquired at Iosegun, and a 4,800 acre (1 920 hectare) licence with similar characteristics was acquired at Pine Creek. Bralorne holds a 42.85 per cent interest in both areas. Both prospects will be drilled in 1981.

Gas was discovered at Heart River prior to 1980 in two formations. In December gas was tested at 2,800 thousand cubic feet per day (79 000 cubic metres per day) from a deeper horizon in a delineation well. Bralorne holds

Peace River Area



varied interests in the 24,188 acres (9 675 hectares), ranging from 25 to 50 per cent. The Company has held preliminary discussions with a major transporter of natural gas concerning construction of a pipeline from the Heart River area and has been advised that a pipeline is now economic, if markets can be developed.

1980 drilling

	Alberta			United States			
	oil	gas	dry	oil	gas	dry	total
Exploratory wells							
— gross	2	11	4	6	5	7	35
— net	0.9	5.5	2.0	1.0	1.3	2.0	12.7
Development wells							
— gross	—	56	7	—	—	—	63
— net	—	31.1	5.1	—	—	—	36.2

Joint Venture One

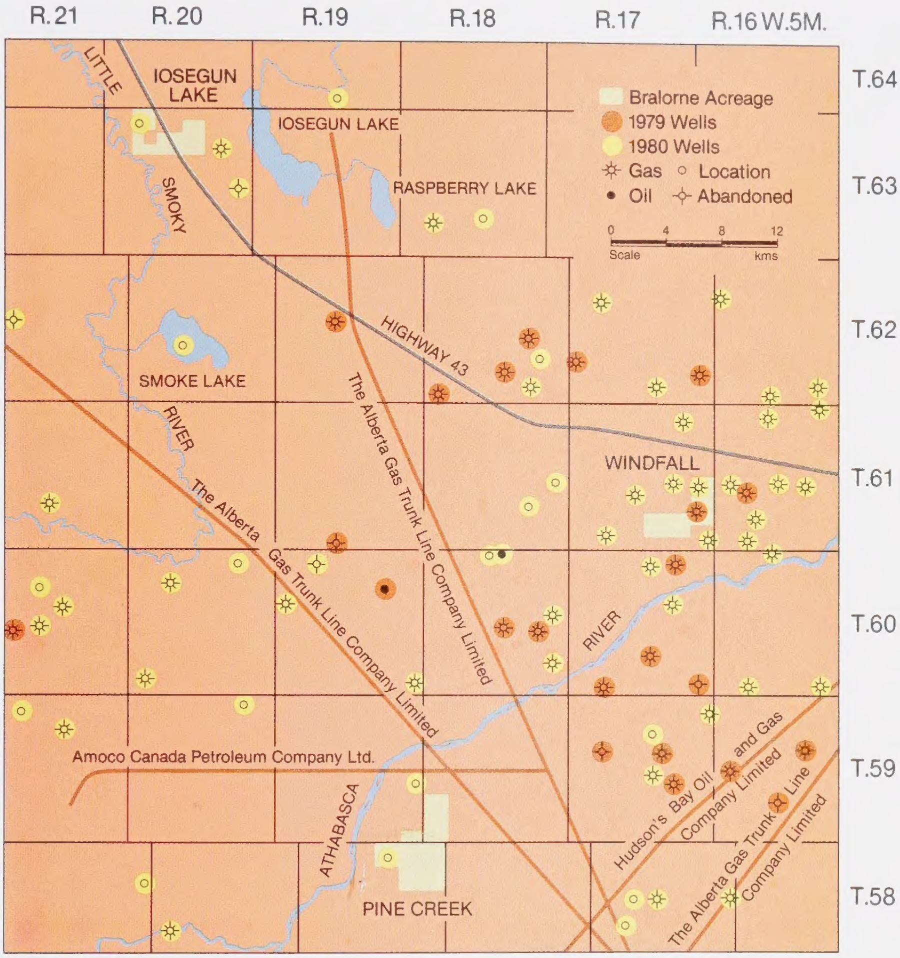
Bralorne's joint venture agreement with C-I-L Inc., which began in 1976, expired May 30, 1980. During 1980 the two partners spent $11.7 million on exploration acreage within Alberta and drilling exploration wells. The Joint Venture One properties now total 172,000 acres (68 800 hectares) and involve 23 prospects. Bralorne and C-I-L- will continue to develop these properties as equal partners.

Joint Venture Two

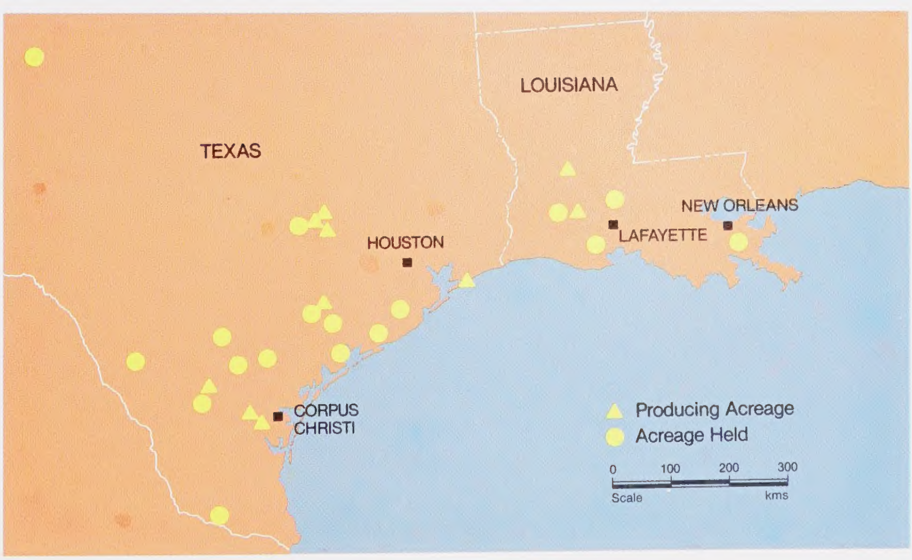
During the year Bralorne and three partners — C-I-L, Versatile Corporation and ICI Petroleum (Canada) Inc. — entered into a new joint venture for oil and gas exploration in Western Canada.

The agreement calls for initial expenditure by the four parties of up to $70 million by June 30, 1983, but full commitment of funds will be carefully reviewed on an annual basis. The companies may ultimately extend the agreement to 1985 and spend up to $117 million if conditions warrant.

Windfall Area



United States



As operator of the venture, Bralorne has been acquiring exploration acreage and drilling exploratory wells since July 1. To date $11.5 million has been spent acquiring interests in six prospects covering 64,000 gross acres (25 600 hectares). Bralorne retains a 42.85 per cent working interest in all lands and petroleum reserves acquired.

Land (in acres)	**Dec. 31, 1980**	Dec. 31, 1979
Alberta		
— gross	**487,125**	386,912
— net	**180,904**	146,265
Saskatchewan		
— gross	**6,633**	6,633
— net	**3,843**	3,788
United States		
— gross	**19,051**	13,774
— net	**4,842**	4,546
Total		
— gross	**512,809**	407,319
— net	**189,589**	154,599

Development

Of 63 gross (36.2 net) development wells drilled by the Company in 1980, 56 (31.1 net) were completed as successful gas wells. The major areas of development activity continued to be within the Company's gas purchase contract areas at Medicine Hat.

The Company participated in 55 gross wells (31 net) within its contract area at Chappice; 50 (28 net) were completed as gas wells and are now producing.

Also during 1980 6 gross (4.5 net) wells were drilled within the Cavan Lake sales contract area and 4 were completed as producers.

Production

The development drilling program resulted in a significant increase in gas production. Daily gas production in 1979 averaged 9.9 million cubic feet a day (280 thousand cubic metres a day). Daily gas production in 1980 averaged 14.5 million cubic feet a day (409 thousand cubic metres a day). Production at year-end was 18.8 million cubic feet a day (530 thousand cubic metres a day).

The increases in production occurred despite some contractual and take-or-pay shutting in of gas during the year. And although volume restraints are expected throughout the province in 1981 the Company still intends to request further increases in its deliveries for November 1981.

Production of crude oil and natural gas liquids, mainly from Saskatchewan properties, increased slightly over 1979. In 1980 it averaged 213 barrels a day (34 cubic metres a day).

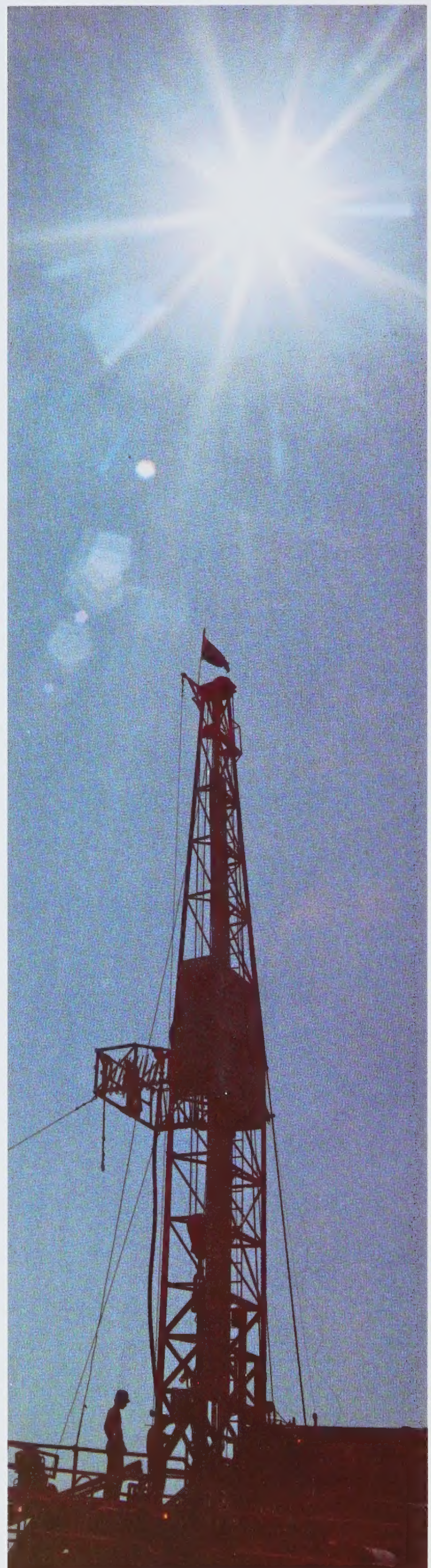
Reserves

According to independent consultants Sproule Associates Limited, at year-end net proven and probable crude oil and natural gas liquids reserves were 1,251,000 barrels (199 thousand cubic metres), an increase of 22 per cent over 1979. Gas reserves were 147 billion cubic feet (4 billion cubic metres), an increase of 47 per cent over 1979. Present worth of these reserves, net of royalties and operating costs, but before taxes and discounted at 12 per cent, increased from $99,053,000 to $161,721,000.

Outlook

The Company remains concerned about the lack of new markets for natural gas. In 1979 the Company had 67 per cent of its natural gas connected to markets; in 1980 only 50 per cent of our gas was on-stream. Additional markets — domestic and export — must be developed and developed soon.

The Company will continue to expand its land holdings, crude reserves and production facilities in Canada in 1981, but with emphasis on areas near existing energy transportation systems, and on reserves that have some reasonable hope of being developed and sold in the foreseeable future.



Bralorne participated in the drilling of 18 wells on shore in Texas and Louisiana

United States

Bralorne's United States oil and gas activities grew from an expenditure in 1979 of $1.5 million to an expenditure of $3.1 million in 1980. Expenditures in 1981 will likely be double those of 1980.

Up to now Bralorne's activity has been limited to investing in joint ventures, but the Company is adding staff and office space in Corpus Christi, Texas, to expand investment activity and to begin operations on our own prospects.

In 1980 Bralorne participated in the drilling of 18 gross (4.3 net) exploratory wells, and an additional four wells by farmout. Of the 18, 6 were completed as oil wells and 5 as gas. All wells were in Texas and Louisiana, onshore.

Relatively modest oil and gas production was realized from these wells in 1980 — just under 13,000 barrels (2.1 thousand cubic metres) of oil and 13,000 thousand cubic feet (366 thousand cubic metres) of gas — providing Bralorne with operating income of about $0.2 million. Production and revenues from United States operations will increase in 1981.

An independent consultant evaluated our United States reserves at year-end 1980 at 2 billion cubic feet (56 million cubic metres) of natural gas, and 450,000 barrels (71 500 cubic metres) of oil. These reserves have a before tax worth, discounted at 12 per cent, of $11.8 million (Canadian).

As of year-end, the Company's United States land holdings totalled 19,051 gross acres (7 620 hectares). Bralorne's net interest, which totals 4,842 acres (1 937 hectares), has been independently valued at $1.25 million.

Installing an Amphib connector, a patented and successful product from Mark Products, Inc.

Manufacturing Group

Bralorne's Manufacturing Group had another excellent year. The Group's revenue was up more than 68 per cent, and accounted for 60 per cent of Bralorne's total revenue in 1980. Prospects for continued volume growth for the Manufacturing Group are excellent in the United States, but uncertain in Canada.

United States

Mark Products, Inc.

Mark Products, Inc. had record earnings and record order backlogs at year-end 1980. Net income was $6,134,000 (U.S.) on revenues of $42,276,000 in 1980, compared with net income of $1,602,000 on revenues of $24,502,000 in 1979.

Mark manufactures and markets a wide range of equipment used to gather geophysical data, including geophones, cables, and various connectors.

Mark has its head office and plants in Houston, Texas. In the first quarter of 1980 Mark acquired a new 60,000 square-foot building adjacent to its two other plants. It now houses the corporate offices, an expanded research and development staff, and sales and

accounting departments. It also provides additional manufacturing space which will be fully utilized in 1981.

Custom Cable Company, a Mark subsidiary in Houston, added 20,000 square feet of plant space in the first quarter, and installed one of the world's largest cabling machines.

In the spring, Mark opened a service centre in Denver, Colorado to provide cable repair, geophone restringing and accessories to geophysical crews working in the Rocky Mountains.

Mark's outlook for 1981 is excellent. The company is considered a technical innovator and a leader in the geophysical equipment industry, and with the continuing — and indeed growing — boom in United States petroleum activity Mark's prospects are bright. To meet the continuing high demand for its products Mark plans to increase its production capacity 50 per cent by mid-1981.

Mark is a public company 51 per cent owned by Bralorne. On August 28 last year trading in Mark shares commenced on the American Stock Exchange under the symbol MKP; it previously traded on NASDAQ.

OMSCO Industries, Inc.

Plant expansion and expansion of storage capacity for steel, begun in 1979, continued at OMSCO Industries, Inc. in 1980. In fact, expansion and growth has been almost continuous at the OMSCO facility in Houston, Texas, as OMSCO has increased its production and sales to meet the continuing increase in demand throughout the United States for petroleum exploration products.

A 5½-inch hex kelly before machining the hex, at OMSCO Industries, Inc.

Grinding corner radii on API threading inserts, at Triangle Grinding, Inc.

OMSCO, a wholly-owned Bralorne subsidiary, manufactures drill collars, kellys and kelly valves.

Demand for OMSCO products should remain high throughout 1981, and additional expansion is planned. OMSCO is adding to its production capacity by utilizing additional plant space that currently exists adjacent to present plants. It also is completing a new two-storey office complex.

Triangle Grinding, Inc.

Triangle Grinding, Inc. of Houston, Texas manufactures carbide cutting tools, tool holders and boring bars for the metal cutting industry. It is a wholly-owned Bralorne subsidiary.

Energy industry demand in 1980 for more products requiring threaded connections and components resulted in a marked increase in demand for Triangle's patented V-Lok system carbide inserts. There was also an increase in demand for special trepan-type tools used to make oil field tubular products. This type of carbide tooling increased to 25 per cent of Triangle's manufacturing volume in 1980.

In the first quarter of the year Triangle acquired a Houston machine shop to create its own in-house manufacturing capability for tool holders and trepanning heads.

Canada

Barber Industries

Barber Industries had an improved year in 1980 with revenue up almost 50 per cent over 1979. Barber, a division of Bralorne, operates one of the largest metal fabricating and machining facilities in Western Canada.

The Calgary fabrication shop increased its compressor plant space by 50 per cent and enjoyed a record sales year. The plant's pressure vessel bay was kept busy in 1980 and will work on vessels in 1981 for the Alaska Highway gas pipeline project. Pipe threading facilities also operated at full capacity in Calgary.

In Edmonton the Wellhead Division experienced an excellent year with revenues up 150 per cent over 1979. Prospects for the division are also excellent for 1981, with increased international sales forecast. Engineered Oil Controls (ENOCO), also of Edmonton, became a division of Barber in 1980; previously it had been a division within the Supply Group.

Despite these positive aspects of 1980, prospects for 1981 are less bright. Current domestic energy uncertainties have resulted in reduced petroleum exploration activity, and thus reduced orders for equipment. Thus the division looks to the future with some trepidation.

Barber Offshore Ltd.

Effective July 1, Bralorne participated in the formation of Barber Offshore Ltd. in St. John's, Newfoundland to provide product and services to the petroleum industry in the Atlantic provinces. Barber Offshore is a Newfoundland company. It initially established a machine shop to provide repairs to all types of tubular goods.

Assembling a compressor control panel: part of the complete compressor packaging service of Barber Industries

Supreme Contractors, Inc., acquired in mid-1980, prepares access roads and drilling sites in southern Louisiana

Service Group

Service Group revenue in 1980 was up 76 per cent. Growth was due to strong demand for camps and services for the drilling industry in Western Canada, and the mid-year acquisition of Supreme Contractors, Inc. Despite the National Energy Program's negative effects on drilling, the Service Group expects continued growth in 1981 — through expansion of Supreme, and through increased United States involvement by Crown Caterers and Custom Structures.

United States

Supreme Contractors, Inc.

The newest member of the Service Group is Supreme Contractors, Inc. of Lafayette, Louisiana, acquired effective July 1, 1980 through Bralorne's wholly-owned subsidiary Bralorne International Inc. The Company acquired a 100 per cent interest in the privately-owned oil field service company.

Supreme provides a variety of production and drilling-related services to oil and gas operators throughout southern Louisiana. Its principal business activity is preparing roads using hardwood boards, and site preparation for

Serving a meal in one of Crown Caterers' new camp units, at a drilling site near Edson, Alberta

drilling locations. Supreme also hooks up production equipment during completion of oil and gas wells and does lease maintenance throughout the life of a completed well.

Supreme's head office is in Lafayette, with field offices in Jennings, Cecilia, Thibodaux and False River, Louisiana, and in Bay City, Texas.

Supreme contributed materially to Bralorne's excellent second half, and it will be an important part of the Company's planned expansion of service activities in the United States.

Canada

Crown Caterers

Crown Caterers, and its Camp Provisioners Division, both of Edmonton, had an excellent year as the petroleum drilling boom continued in Western Canada through 1980. Demand for Crown's camp leasing, servicing and food catering services continued to be high.

Crown, a Division of Bralorne, remodelled a number of its older camp units in 1980, and added to its camp fleet — in all $3 million was spent on additions to Crown's property, plant and equipment during the year. Demand remained strong throughout the year, but with the announcement in October of the National Energy Program, drilling activity — and thus drilling service activity — began to drop.

With observers forecasting a drop in Western drilling of up to 40 per cent in 1981, Crown, too, faces a drop in business in its traditional markets of Western and Northern Canada. It hopes to offset any such losses with increased business in 1981 in the United States. It began moving camps to United States drilling locations at the beginning of 1981. It established an operations base in Casper, Wyoming and a sales representative in Denver, Colorado.

Imperial Oil's permanent base camp at Norman Wells, N.W.T., built in 1980 by Custom Structures

Custom Structures

Custom Structures also had an excellent year; revenue was up about 150 per cent and demand for product was strong.

Custom, a Division of Bralorne, based in Spruce Grove, Alberta, entered 1980 with a substantial backlog of orders for industrial relocatable housing. Early in the year it sublet space in Calgary to help handle the backlog. Spruce Grove concentrated on special projects — another all-steel camp for Alaska and a base camp for use by Imperial Oil in Norman Wells.

In September, Custom announced it was moving by year-end from its temporary Calgary facility to 100,000 square feet of permanent plant space in Claresholm, Alberta.

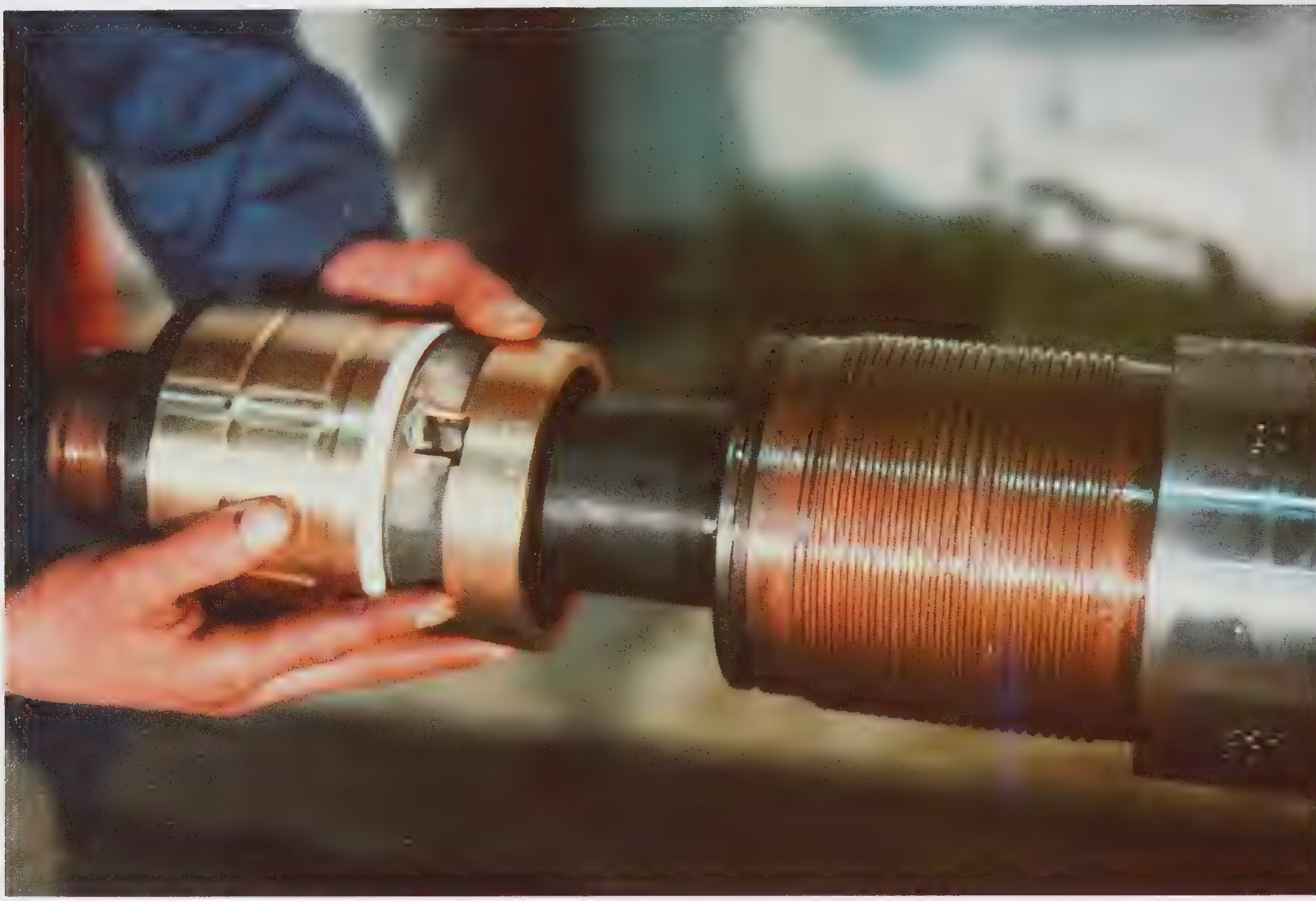
The numerous energy megaprojects planned for the 1980s — oil sands, heavy oil, pipeline and mining projects — are still expected to have a positive impact on Custom Structures. But with reduced demand for drilling camps in Canada, as a result of the National Energy Program, Custom is also looking in some new directions for 1981. It has already produced some special construction shelter units, and it is looking at greater involvement in the construction of larger, permanent camps. Custom has also begun to move more aggressively into United States markets.

Malta

Mobile Homes Limited

Mobile Homes Limited diversified both products and markets in 1980. Mobile, a 51 per cent owned Bralorne subsidiary in Malta, supplies mobile housing for residential, commercial and industrial use in the Middle East and North Africa.

The main plant at Corradino was expanded during 1980, and a specialized products section established. A number of skid-mounted units were built, and wheeled trailers were introduced for seismic survey use.



Assembling a Jarco Services Ltd. downhole drilling tool: Jarco added to its tool inventory in 1980

Supply Group

The Supply Group was formed at the beginning of 1980. Its mandate is to expand the company's involvement in specialized products — in manufacturing, in rentals and in sales.

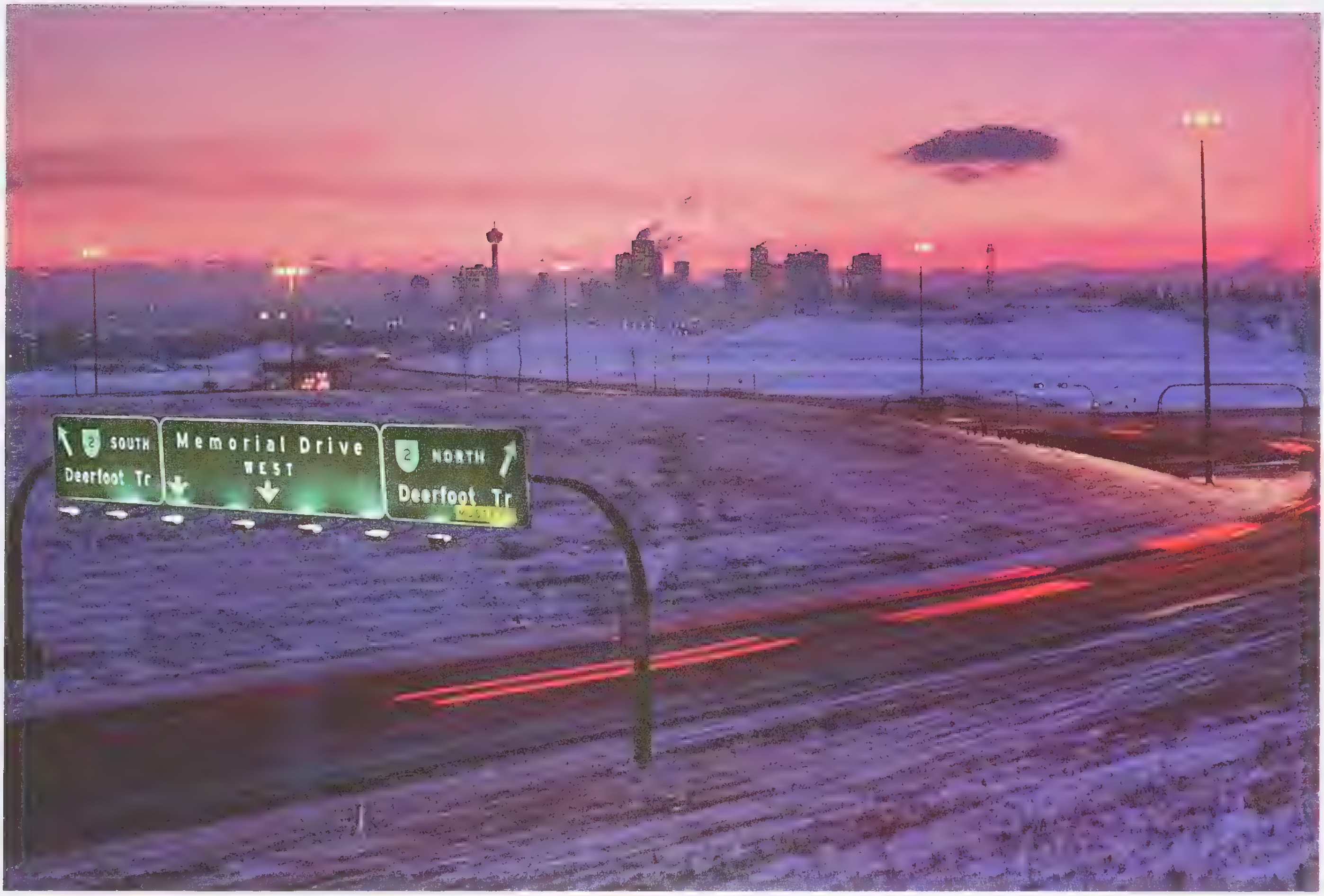
Jarco Services Ltd.

Jarco Services Ltd. supplies downhole tools for the drilling industry. It is a wholly-owned Bralorne subsidiary based in Calgary with world-wide markets.

Jarco assembles, leases and services patented hydraulic drilling jars, and shock subs. Jars are used on drilling rigs to free strings of drill pipe which have become stuck in the hole; shock subs are used to dampen vibration in a drill string, thus reducing downhole maintenance and increasing drill bit life.

Jarco had another excellent year in 1980 with continued growth in demand for its products. During the year Jarco opened a facility to service its tools in St. John's, Newfoundland. It added $3 million worth of property, plant and equipment during the year, increasing its rental tool inventory once again, and moving into a new office and plant facility with 17,500 square feet of space in southeast Calgary.

Considerable effort also went into expanding Jarco's business in the Far East. Bralorne Resources PTE Ltd. represents Jarco in the area, with an office in Singapore. Service centres for tools have been established in Singapore; Brunei, Malaysia and Balikpapan, Indonesia, and tools were also moved into the Philippines during 1980.



Polesystems Ltd. had increased orders for highway lighting and traffic control structures

With the likelihood of substantially reduced petroleum activity in Western Canada in 1981, Jarco plans to put even greater emphasis during the coming year on developing its international markets. A joint venture has been developed to move Jarco tools into Australia and New Zealand and a service centre is planned for Toowoomba, Australia; tools are being tried in Abu Dhabi and Mexico; and demand continues to grow along the Gulf Coast of the United States.

Polesystems Ltd.

Polesystems Ltd. had an improved year in 1980. Orders for highway lighting and traffic control structures increased. Some new specialized products were manufactured. And steel availability was better than it was in 1979.

Polesystems is a wholly-owned Bralorne subsidiary with plants in Calgary and Winnipeg. As of early 1981 a third facility was established on Bralorne property at Claresholm, Alberta. It is being equipped to provide overflow capacity for the Calgary plant.

One of the special projects handled in Calgary in 1980 was the production for the City of Calgary of power poles for the city's new Light Rail Transit (LRT) system. The plant also continued its trade in traffic and lighting structures.

The Winnipeg plant also concentrated on light standards and overhead traffic control structures, while working to expand its markets further into Eastern Canada.

Plans for 1981 include continued involvement with LRT, and possible involvement in energy transmission line systems.

Something old: the town of Bralorne and the Bralorne gold mine — the site of exploratory drilling in 1980

Other Corporate

In August, Bralorne entered into an agreement with E & B Explorations Inc. to undertake a program of exploration and development of the Bralorne gold mine. The Bralorne mine was once the largest producer of gold in British Columbia, and although the mine was closed in 1971 the Company retained its 133 Crown-granted mineral claims on more than 3,800 acres (1 520 hectares) at Bralorne, B.C.

Under terms of the agreement E & B will spend $1 million before March 31, 1981 on property assessment work. E & B may commit to spend a further $2 million by March 31, 1982 to earn a 20 per cent interest in the property, and a further $2 million by June 30, 1983 to earn a further 30 per cent interest.

Results of exploratory work and core drilling in the latter part of 1980 were encouraging, and E & B had already accelerated its pace of spending by year-end.

The ultimate aim of the venture is to reopen the mine as a joint venture, if it proves economic to do so.

Also during 1980, Bralorne launched a new corporate design program. The new logo is a four-part 'B', with the various sections representing the different parts of the Company that combine to make the Bralorne whole. The new design program is used throughout this report, and will be used in future on all Bralorne corporate and Oil and Gas print materials, signs and equipment. It is not intended, however, for use by divisions or subsidiaries already having logos, trademarks or design programs of their own.

Something new: corporate design

Comparative Results by Operating Segments

(thousands of dollars)

	Gross Revenue			Segmented Cash Flow*			Segmented Operating Profit		
	1980	1979	% Increase	**1980**	1979	% Increase	**1980**	1979	% Increase
Manufacturing Group	**$145,140**	86,331	68	**36,077**	20,718	74	**32,429**	18,636	74
Service Group	**70,572**	40,051	76	**14,393**	5,345	169	**11,369**	4,468	154
Supply Group	**14,075**	9,190	53	**5,030**	3,257	54	**4,322**	2,929	48
Oil & Gas Division	**10,177**	5,128	98	**8,985**	3,998	125	**6,840**	2,682	55
Consolidated	**$239,964**	140,700	71	**64,485**	33,318	95	**54,960**	28,715	91

**Before income taxes, interest, certain corporate expenses and minority interest*

	1980	1979
General corporate expenses	**$ 2,910**	1,712
Interest expenses	**11,833**	6,066
(Gain) loss on exchange	**(766)**	379
Minority interest	**3,842**	1,198
Income taxes	**16,621**	8,634
	34,440	17,989
Net income	**$20,520**	10,726

Financial Review

Income

Gross revenue increased 71 per cent to $239,964,000 while cash flow from operations increased 107 per cent to $42,277,000. Net income was $20,520,000 or $1.01 per share compared to $10,726,000 or 54 cents per share in 1979. The above table summarizes these comparative results by operating segment.

These significant increases in gross revenue and operating income have three major components: internal growth from all divisions; the mid-year acquisition of Supreme Contractors, Inc.; and the inclusion of a full year of operations for Mark Products, Inc.

As a result of the Company's ambitious development program within existing contract areas, the Oil and Gas Division achieved much higher production levels in 1980 with a resultant increase in operating income.

From a geographic point of view, the Company's United States manufacturing and service operations had excellent growth with the second half results significantly ahead of those for the first six months.

Larger outstanding loan balances resulting from acquisitions and an ambitious capital expenditures program, coupled with 1980 interest rates higher than those of the prior year, resulted in a substantial increase in the Company's interest on long-term debt. Other interest is higher because short-term bank loans were increased during the year to finance the additional working capital requirements associated with the higher volumes in all segments.

The gain on foreign exchange results from the conversion of working capital in the Company's United States subsidiaries from U.S. dollars to Canadian dollars.

Since the Company maintains a high level of reinvestment in plant and equipment, and oil and gas exploration and development programs, a significant portion of income taxes otherwise payable continues to be deferred.

The minority interest caption on the income statement relates to the minority shareholders' position in Mark Products, Inc. and Mobile Homes Limited.

Changes in Financial Position

The Company's financial structure was changed in 1980 by the placement, in September, of a $40,000,000, 15-year 12⅞ per cent debenture in Canada. These funds were used to retire all existing medium-term floating rate Canadian bank debt and reduce the Canadian short-term bank loan.

The significant increase in cash flow from operations has been reinvested in oil and gas interests and property, plant and equipment.

The increase and repayment of long-term debt reflects the

Capital Expenditures

(millions of dollars)

	1980	1979
Oil and Gas		
Land acquisition....	$ 6.1	0.7
Exploration and development..	10.9	6.9
	$17.0	7.6
Property, plant and equipment		
Manufacturing...	$13.4	5.2
Service.........	7.9	4.5
Supply	3.5	1.4
Other	0.2	0.3
	$25.0	11.4
	$42.0	19.0

Estimated Before-Tax Present Worth Value of Oil & Gas Holdings

(millions of dollars)

Discount Rate 12% 1980	1979	1980 Gain	Canada	Discount Rate 15% 1980	1979	1980 Gain
162	99	63	Proven and probable reserves	126	84	42
15	11	4	Undeveloped lands	16	10	6
177	110	67	Total Canada	142	94	48
13	7	6	**United States**	10	6	4
190	117	73	Total	152	100	52

retirement of existing debt on the placement of the debenture referred to above. The net increase in long-term debt of $42,576,000 arises from new loans in the United States to finance acquisitions and the increase in long-term debt in Canada resulting from the new debenture.

Under the terms of purchase agreements on prior acquisitions, the Company pays additional purchase consideration based on earning levels achieved subsequent to the purchase. In 1980, the additional payments of $8,315,000 were charged to goodwill.

As indicated elsewhere in this report, the appraised value of the Company's oil and gas interests increased markedly during 1980 (see above chart).

In addition to increased natural gas productivity in Canada, these values were also favorably affected by significant new gas finds in Canada and by encouraging exploration results in the United States. The Company estimates that the provisions of the National Energy Program, which are taken into account in establishing present worth, had the effect of reducing values in the range of 15 to 20 per cent.

The Company's ratio of long-term debt to shareholders' equity as reflected on the Balance Sheet increased from 1:1 at Dec. 31, 1979 to 1.3:1 at Dec. 31, 1980. These ratios are misleading in assessing the financial strength of resource companies such as Bralorne where there is a wide disparity between book and estimated market value of the underlying oil and gas assets. For example, using a 12 per cent discount factor and an effective 50 per cent income tax rate, the value of the Company's oil and gas assets as presented in the financial statements would increase by approximately $74,000,000. The shareholders' equity would accordingly increase from $63.5 million to approximately $137.5 million and the indicated debt-equity would decline from 1.3:1 to 0.6:1.

On this basis we believe that the Company is relatively conservatively financed at present and has the capacity to raise substantial additional debt financing should the need arise.

The Company increased its dividend by 50 per cent during 1980. Dividends of 5 cents per share were paid July 1, 1980 and Jan. 2, 1981 to shareholders of record on June 13, 1980 and Dec. 10, 1980 respectively.

Reflecting the steadily improving market value of the Company's shares, a three-for-one stock split was authorized effective April 25, 1980.

SHAREHOLDER INFORMATION

Shares Authorized

30,000,000 common shares without par value

Shares Issued

20,516,130 at December 31, 1980

Shareholder Distribution

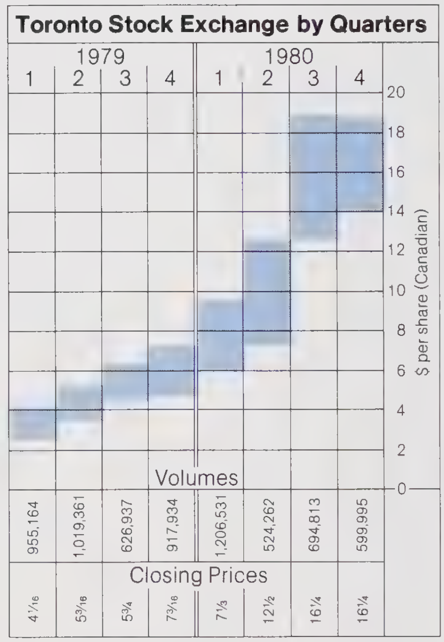
	Share-holders	Share-holdings	Per cent
Canada	2,034	16,073,368	79
United States	3,002	4,377,022	21
Other	37	65,740	—
	5,073	20,516,130	100

Listings

Montreal, Toronto and Vancouver Stock Exchanges (Symbol "BR")

NASDAQ (Symbol "BRALF")

Trading Records



Toronto Stock Exchange (Symbol "BR") in Canadian Dollars

	Volume	High	Low	Close
1979	3,519,396	7⅓	2⅔	7 3/16
1980	3,025,601	19	6	16½
1981*	459,685	16⅞	14½	16

NASDAQ (Symbol "BRALF") in U.S. Dollars

	Volume	High	Low	Close
1979	2,195,307	6¼	2 3/16	6 1/16
1980	2,652,659	16⅜	4 15/16	13⅜
1981*	219,317	14¼	12	13⅛

**to March 6, 1981*

All numbers have been restated to reflect 1980 stock split.

Ten-Year Financial Summary

(thousands of dollars except per share)

	1980	1979	1978	1977*	1976*	1975*	1974	1973	1972	1971
Gross Revenue	**$239,964**	$140,700	$86,408	$58,488	$46,743	$33,147	$23,438	$18,842	$17,223	$1,515
Cash Flow from Operations	**42,227**	20,396	12,619	7,657	5,671	4,533	2,316	1,488	1,328	255
Per Share	**$2.07**	$1.02	71¢	50¢	37¢	30¢	15¢	10¢	9¢	2¢
Income before Extraordinary Items	**20,520**	10,726	6,808	3,511	2,926	2,193	938	532	639	151
Per Share	**$1.01**	54¢	38¢	23¢	19¢	14¢	6¢	4¢	4¢	1¢
Net Income	**20,520**	10,726	6,808	3,880	2,926	1,199	938	2,262	639	151
Per Share	**$1.01**	54¢	38¢	25¢	19¢	14¢	6¢	15¢	4¢	1¢
Shareholders' Equity	**63,560**	41,883	32,402	20,126	16,041	12,943	11,745	10,807	8,107	7,530
Per Share	**$3.10**	$2.09	$1.62	$1.30	$1.05	85¢	77¢	71¢	56¢	52¢

** Restated for 1978 prior period adjustment. All per share figures reflect 1980 stock split.*

Financial Statements

Auditors' Report

To the Shareholders of
Bralorne Resources Limited:

We have examined the consolidated balance sheet of Bralorne Resources Limited as at December 31, 1980 and the consolidated statements of income and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Calgary, Alberta
February 20, 1981

Consolidated Statement of Income and Earnings Reinvested in the Business

	Year Ended December 31	
	1980	1979
Gross revenue	**$239,964,000**	$140,700,000
Expenses:		
Cost of sales and services	**153,521,000**	93,847,000
Selling, general and administrative	**23,926,000**	14,740,000
Interest on long-term debt	**8,454,000**	4,238,000
Other interest	**3,379,000**	1,828,000
Depreciation and amortization	**8,742,000**	4,060,000
Depletion	**1,725,000**	1,050,000
Loss (gain) on foreign exchange	**(766,000)**	379,000
	198,981,000	120,142,000
Income before income taxes and minority interest	**40,983,000**	20,558,000
Income taxes:		
Current	**9,284,000**	5,041,000
Deferred	**7,337,000**	3,593,000
	16,621,000	8,634,000
Income before minority interest	**24,362,000**	11,924,000
Minority interest	**3,842,000**	1,198,000
Net income	**20,520,000**	10,726,000
Earnings reinvested in the business, beginning of year	**29,000,000**	19,611,000
	49,520,000	30,337,000
Dividends (1980 - $0.10 per share) (1979 - $0.07 per share)	**2,051,000**	1,337,000
Earnings reinvested in the business, end of year	**$ 47,469,000**	$ 29,000,000
Earnings per share	**$1.01**	$0.54

See accompanying notes

Bralorne Resources Limited

Consolidated Balance Sheet

	December 31	
Assets	**1980**	1979
Current assets:		
Cash	**$ 3,935,000**	$ 1,864,000
Accounts receivable	**49,969,000**	33,204,000
Inventories of raw materials and supplies, at lower of cost or net realizable value	**49,889,000**	36,136,000
Prepaid expenses and other assets	**3,006,000**	1,018,000
	106,799,000	72,222,000
Long-term receivables and other assets	**4,445,000**	974,000
Capital assets:		
Property, plant and equipment, at cost	**68,904,000**	42,137,000
Less: Accumulated depreciation	**(14,753,000)**	(8,547,000)
Oil and gas interests, at cost	**48,727,000**	33,570,000
Less: Accumulated depletion and depreciation	**(6,647,000)**	(4,518,000)
Mining interests, at cost, less amounts written off	**941,000**	946,000
	97,172,000	63,588,000
Goodwill	**24,577,000**	10,401,000
Patents	**1,430,000**	1,509,000
	$234,423,000	$148,694,000

Liabilities		
Current liabilities:		
Bank loans	**$ 19,392,000**	$ 15,929,000
Accounts payable and accrued liabilities	**27,685,000**	21,843,000
Dividend payable	**1,025,000**	677,000
Income taxes payable	**2,124,000**	1,483,000
Notes payable	**3,737,000**	—
Current portion of long-term debt	**552,000**	6,415,000
	54,515,000	46,347,000
Long-term debt	**83,700,000**	41,124,000
Deferred income taxes	**21,041,000**	12,224,000
Prepayment of natural gas sales	**1,238,000**	413,000
Minority interest	**10,369,000**	6,703,000
Shareholders' Equity		
Capital stock —		
Authorized —		
30,000,000 shares of no par value		
Issued —		
20,516,130 shares (1979 - 20,030,130)	**16,091,000**	12,883,000
Earnings reinvested in the business	**47,469,000**	29,000,000
	63,560,000	41,883,000
	$234,423,000	$148,694,000

APPROVED BY THE BOARD:

PETER PAUL SAUNDERS, Director
F. W. FITZPATRICK, Director

See accompanying notes

Consolidated Statement of Changes in Financial Position

	Year Ended December 31	
	1980	1979
Sources of working capital:		
From operations —		
Net income	**$ 20,520,000**	$10,726,000
Add: Items not affecting working capital		
Depreciation, depletion and amortization	**10,467,000**	5,110,000
Deferred income taxes	**7,759,000**	3,593,000
Minority interest	**3,842,000**	1,198,000
Other — net	**(361,000)**	(231,000)
Cash flow from operations	**42,227,000**	20,396,000
Proceeds from disposals —		
Property, plant and equipment	**1,265,000**	2,075,000
Oil and gas properties	**1,834,000**	—
Other	**—**	156,000
Issuance of common shares	**3,208,000**	92,000
Long-term debt	**74,782,000**	22,305,000
Prepayment of natural gas sales	**825,000**	233,000
	124,141,000	45,257,000
Uses of working capital:		
Property, plant and equipment	**25,025,000**	11,434,000
Oil and gas interests	**17,008,000**	7,619,000
Reduction in long-term debt	**32,206,000**	7,215,000
Dividends	**2,051,000**	1,337,000
Increase (decrease) in long-term receivables	**3,471,000**	(145,000)
Business acquisitions less working capital acquired	**9,625,000**	3,633,000
Additional purchase consideration on prior acquisitions	**8,315,000**	—
Other	**31,000**	115,000
	97,732,000	31,208,000
Increase in working capital	**26,409,000**	14,049,000
Working capital, beginning of year	**25,875,000**	11,826,000
Working capital, end of year	**$ 52,284,000**	$25,875,000

See accompanying notes

Notes to 1980 Consolidated Financial Statements

1. Accounting policies

(a) Principles of consolidation: The consolidated financial statements include the accounts of the Company and all its subsidiaries.

(b) Oil and gas interests: The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expense, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead related to exploration activities. These costs are depleted by the unit-of-production method based on the estimated proven oil and gas reserves.

(c) Mining interests: Exploration expenditures on mining properties continuing under examination are deferred and will be amortized against production revenue from the relevant properties or written off upon cessation of interest therein.

(d) Property, plant and equipment: Property, plant and equipment are carried at cost, and are being depreciated on a straight-line basis over the estimated useful life of the assets at annual rates from 2½% to 50%. Expenditures for repairs and maintenance are charged to operating expenses. Betterments and major renewals are capitalized. Gains on retirement or disposal of plant and equipment are recognized in income.

(e) Goodwill: Goodwill is being amortized on a straight-line basis over forty years resulting in a charge to income in 1980 of $397,000. (1979 - $240,000).

(f) Patents: Patents are being amortized over a period of seventeen years resulting in a charge to income in 1980 of $109,000 (1979 - $107,000).

(g) Income Taxes: The Company accounts for taxes by the tax allocation method whereby tax expense is determined as the amount that would be payable if statutory deductions for drilling, exploration and lease acquisitions and capital cost allowances did not exceed the related depletion and depreciation provisions charged against income. The excess of income tax expense over income tax actually payable is reported as deferred income tax expense.

(h) Earnings per share: The Company calculates earnings per share based on the weighted monthly average of shares outstanding.

(i) Foreign currency translation: Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange at the year-end

Other assets and liabilities — at historical rates of exchange

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

2. Business acquisition

Effective July 1, 1980, the Company acquired all the outstanding shares of a company engaged in the business of road and drill site preparation. The acquisition has been accounted for as a purchase and accordingly the results of operations since July 1, 1980 have been included in the consolidated financial statements.

Net assets acquired as at July 1, 1980 are summarized as follows:

Working capital	$ 2,358,000
Fixed assets, at appraised value	4,280,000
Goodwill	6,403,000
	13,041,000
Deferred income taxes	(1,058,000)
	$11,983,000

Consideration:

Cash	$ 4,995,000
Notes due January 2, 1981	3,397,000
Deferred purchase consideration due August 1, 1985 bearing interest at 6 per cent	3,591,000
	$11,983,000

3. Long-term debt

	1980	1979
Bralorne Resources Limited		
Secured debentures, Series A, bearing interest at 12⅞% due August 15, 1995, secured by certain producing oil and gas properties	**$40,000,000**	—
Deferred payment, non-interest bearing, in connection with acquisition of a subsidiary, due April 1, 1982	**600,000**	600,000
Bank loans, utilized by way of Bankers' Acceptance bearing interest at 14.6% and a term loan bearing interest at 1% above the prime rate of a Canadian chartered bank, due 1980 - 1987.	**—**	20,625,000
Note payable, bearing interest at 1% above the prime rate of a Canadian chartered bank due January 15, 1980, secured by the assignment of certain producing properties.	**—**	1,333,000
Bralorne International Inc.		
Bank loan, due 1982 - 1987, bearing interest as follows:	**31,215,000**	16,116,000
U.S. $4,600,000 at 1½% above the Euro-dollar London inter-bank rate		
U.S. $22,400,000 at 1% above the prime rate of a U.S. bank		
Note payable December 31, 1983 (principal amount U.S. $888,000 plus accumulated interest at 6%)	**1,129,000**	1,065,000
Note payable August 1, 1985 bearing interest at 6% (principal amount U.S. $3,120,000)	**3,614,000**	—
Note payable July 1, 1980 (principal amount of U.S. $1,250,000 less imputed interest at 9%)	**—**	1,438,000
Mark Products, Inc.		
Note bearing interest at 9.95% repayable in semi-annual instalments through December 1, 1990 (principal amount U.S. $4,800,000)	**5,609,000**	5,838,000
Bank loan bearing interest at ¾% above the prime rate of a U.S. bank, due in December 1982 (principal amount U.S. $1,300,000)	**1,555,000**	—
Other secured debt	**530,000**	524,000
	84,252,000	47,539,000
Less: current portion	**552,000**	6,415,000
	$83,700,000	41,124,000

The aggregate maturities of long-term debt in each of the four years subsequent to December 31, 1981 are as follows:

1982 — $ 5,717,000	1984 — $ 9,918,000
1983 — $11,051,000	1985 — $13,495,000

Under the provisions of the Trust Deed securing the $40,000,000 debentures, the Company must establish a sinking fund by remitting to the trustee $3,000,000 annually for the years 1983 to 1994 inclusive. In addition the Company must ensure that the value of the petroleum and natural gas properties securing the debentures, discounted at 12⅞%, exceeds the principal amount of the debenture outstanding by a certain percentage and

that the annual net revenue forecasts of these properties exceed the annual principal and interest requirements by a certain percentage. The discounted value and annual net revenue forecasts are to be determined by independent petroleum consultants.

The note of $5,609,000, shown under Mark Products, Inc. above, is unsecured but the loan agreement contains restrictive covenants limiting the payment of dividends and requiring a certain level of net working capital for Mark Products, Inc. In addition to this, Mark Products, Inc. is restricted from incurring additional debt in excess of a specific amount, mortgaging certain assets, entering into long-term lease agreements, guaranteeing debt, disposing of certain assets and entering into new lines of business.

4. Share capital

Under the Company's incentive share subscription plan, 486,000 treasury shares of the Company were issued in 1980 to the participants for a total consideration of $3,208,000 (1979 - 36,000 treasury shares for $151,000). The shares are held by the trustee as security for promissory notes from the various participants, repayable in five equal annual instalments commencing six years after the date of issue, without interest. Funds for the purchase were advanced by the Company and the amount unpaid from time to time is included in long-term receivables. At December 31, 1980, this amount was $3,442,000. The Company has set aside 314,660 shares for possible future issuance under this plan.

On April 25, 1980 the share capital of the Company was split three-for-one and all information in these financial statements has been adjusted to retroactively reflect this split.

5. Contingent liabilities

The acquisition costs of certain companies acquired prior to December 31, 1980 are subject to an upward adjustment (payable in cash) which cannot be determined until 1981, 1983 and 1985. When such amounts are determined the additional payments will be charged to goodwill.

6. Long-term lease commitments

The Company leases certain administrative and manufacturing facilities and certain camp facilities. The annual lease rental commitment on these long-term leases is:

1981 — $1,394,000
1982 — $1,248,000
1983 — $1,620,000
1984 — $1,506,000
1985 — $1,224,000

7. Related party transactions

The Company has entered into a major joint venture for the exploration and development of petroleum and natural gas resources. Versatile Corporation, the Company's parent company, participates in this joint venture under normal industry terms. There are no significant related party receivables or payables at December 31, 1980.

8. Remuneration of directors and senior officers:

The aggregate direct remuneration paid by the Company and its subsidiaries to directors and senior officers for the year ended December 31, 1980 was $856,000, including the amount of $50,000 paid to directors as directors' fees (1979 - $570,000 and $43,000 respectively).

9. Operating subsidiary companies

Barber Industries, Inc.
Bralorne Antilles N.V.
Bralorne Holland B.V.
Bralorne International Inc.
Bralorne Resources PTE Ltd.
Crown Caterers, Inc.
Custom Cable Company
Jarco Services Ltd.
Mark Products, Inc.
Mark Products, Ltd.
Mark Products U.S., Inc.
Mobile Homes Limited
OMSCO Industries, Inc.
Polesystems Ltd.
Supreme Contractors, Inc.
Triangle Grinding, Inc.
Triangle Grinding International, Inc.
World Wide Catering Ltd.

10. Segmented Information — (thousands of dollars)

By Geographic Location	Canada	United States	Other	Eliminations	Consolidated
	December 31, 1980				
Sales to customers outside the enterprise	$110,017	121,152	8,795	—	239,964
Intersegment sales	1,606	71	—	(1,677)	—
	111,623	121,223	8,795	(1,677)	239,964
Segment operating profit	$ 22,742	31,712	800	(84)	55,170
General corporate expenses					3,120
Interest expense					11,833
Gain on foreign exchange					(766)
Income taxes					16,621
Minority interest					3,842
Net income					$ 20,520
Identifiable assets	$118,229	110,387	6,417	(610)	234,423

By Industry	Mfg.	Service	Supply	Oil & Gas	Other	Eliminations	Consolidated
	December 31, 1980						
Sales to customers outside the enterprise	$144,918	70,572	14,075	10,177	222	—	239,964
Intersegment sales	614	—	249	—	1,391	(2,254)	—
Total revenue	145,532	70,572	14,324	10,177	1,613	(2,254)	239,964
Segment operating profit	$ 32,492	11,385	4,255	6,840	210	(12)	55,170
General corporate expenses							3,120
Interest expense							11,833
Gain on foreign exchange							(766)
Income taxes							16,621
Minority interest							3,842
Net income							$ 20,520
Identifiable assets	$115,210	47,056	15,690	46,374	10,093		234,423
Expenditures on oil and gas interests	—	—	—	17,008	—		17,008
Expenditures on property, plant and equipment	13,407	7,851	3,516	—	251		25,025
Depreciation, amortization and depletion	$ 3,655	3,111	960	2,150	591		10,467

The Company operates in four main segments of the resource industry. The manufacturing segment produces and sells compressor packages, wellhead equipment, kellys and drill collars, geophones, connectors, cable, carbide cutting tools and tool holders. The service segment provides industrial relocatable housing, camp leasing, camp servicing and catering operations. The supply segment supplies downhole tools for the drilling industry and provides a variety of light standards and overhead traffic structures. The oil and gas segment is involved in the exploration for, and development of, petroleum and natural gas resources.

OPERATING INFORMATION

Manufacturing Group

P. S. (Stuart) Grant
Group Vice President

Barber Industries Division

T. C. (Tom) Donnelly
President and General Manager

Office and plant, 9625 Shepard Road S.E.,
Calgary, Alta. T2H 1X6
Telephone (403) 279-7511

Office and plant, 10358 - 65 Ave.,
Edmonton, Alta. T6E 4S8
Telephone (403) 434-1441

Wellhead Division:
Office, 605 - 540 - 5 Ave. S.W.,
Calgary, Alta. T2P 0M2
Telephone (403) 237-7360
Plant, 6032 - 103 St.,
Edmonton, Alta. T6H 2H7
Telephone (403) 435-4675

Engineered Oil Controls Division:
Office and plant, 6020 - 103 St.,
Edmonton, Alta. T6H 2H6
Telephone (403) 434-8475
Sales office in Calgary

Barber Offshore Ltd.

F. R. (Fred) Brown
President

Office and plant, Clyde Ave.,
Donavan's Industrial Park
St. John's, Nfld. A1B 3M9
Telephone (709) 364-2957

Mark Products, Inc.

W. E. (Wayne) Tabor
President

Office and plant, 10502 Fallstone,
Houston, Texas 77099
Telephone (713) 498-0600
Service centre in Denver, Colorado

Custom Cable Company:
Office and plant, 5310 Glenmont,
Houston, Texas 77036
Telephone (713) 666-6301

Mark Products Ltd.:
Office and plant, 1108 - 55 Ave. N.E.
Calgary, Alta. T2P 2G9
Telephone (403) 275-3544

OMSCO Industries, Inc.

K.M. (Kees) Verheul
President

Office and plant, 6418 Esperson St.,
Houston, Texas 77011
Telephone (713) 926-7401

Triangle Grinding, Inc.

V. C. (Victor) Takacs
President

Office and plant, 7710 Gulf Freeway,
Houston, Texas 77207
Telephone (713) 641-3211

Plant, 602 Kansas,
South Houston, Texas 77587
Telephone (713) 944-7916

Service Group

D.H. (Don) Claughton
Group Vice President

Crown Caterers Division

M. P. (Martin) Vandergouwe
General Manager

Office and plant, 15816 - 112 Ave.,
Edmonton, Alta. T5M 2W1
Telephone (403) 451-3811

Service centre in Spruce Grove, Alta.
Sales offices in Calgary and Grande Prairie, Alta.; and Fort St. John, B.C.
U.S. offices in Casper, Wyoming and Denver, Colorado

Camp Provisioners Division:
Office and plant, 12720 - 126 Ave.,
Edmonton, Alta. T5L 3C8
Telephone (403) 452-8354

Custom Structures Division

G. M. (Gerry) Fergstad
General Manager

Office and plant, 225 Diamond Ave.,
Spruce Grove, Alta. T0E 2C0
Telephone (403) 962-2110
Sales office in Calgary

Plant, Claresholm Industrial Airport,
Hangars 1 and 2,
Claresholm, Alta. T0L 0T0
Telephone (403) 625-3317

Mobile Homes Limited

J. S. (Jack) Sutherland
S. J. (Steve) Sutherland
Joint Managing Directors

Office and plant, Corradino Heights,
Corradino, Malta Telex: MW460

Supreme Contractors, Inc.

W. H. (Wayne) Bollich
President

Office, 110 Emerald Drive,
Lafayette, Louisiana 70505
Telephone (318) 233-7357

Field offices in Thibodaux, Jennings, Cecilia and False River, Louisiana and Bay City, Texas

Supply Group

J. R. (Jim) Kelly
Group Vice President

Jarco Services Ltd.

J. R. (Jim) Kelly
President

Office and plant, 6325 - 11 St. S.E.,
Calgary, Alta. T2H 2L6
Telephone (403) 259-5936

Offices in Edmonton and Grande Prairie, Alta.; Fort St. John, B.C; and Singapore
Agents in Ventura, California; Houston, Texas; Anchorage, Alaska; Brunei; and St. John's, Nfld.

Polesystems Ltd.

E. H. (Ed) Brennan
President and General Manager

Office and plant, 4822 Centre St. S.,
Calgary, Alta. T2H 2G8
Telephone (403) 243-6061

Plant, Claresholm Industrial Airport,
Hangar 4,
Claresholm, Alta. T0L 0T0
Telephone (403) 625-3312

Plant, 100 Hoka Street,
Winnipeg, Man. R3C 3N2
Telephone (204) 224-1626

Oil and Gas Division

H. C. (Harry) Lowther
Vice President and
General Manager

2900 - 205 - 5 Ave. S.W.,
Calgary, Alta. T2P 2V7
Telephone (403) 261-9060
Field office in Medicine Hat, Alta.

J. L. (Jerry) Goodson
Manager, U.S. Operations

506 Wilson Building,
Corpus Christi, Texas 78476
Telephone (512) 883-2588

Bralorne International Inc.

A. T. (Terry) O'Brien
Manager, International Sales

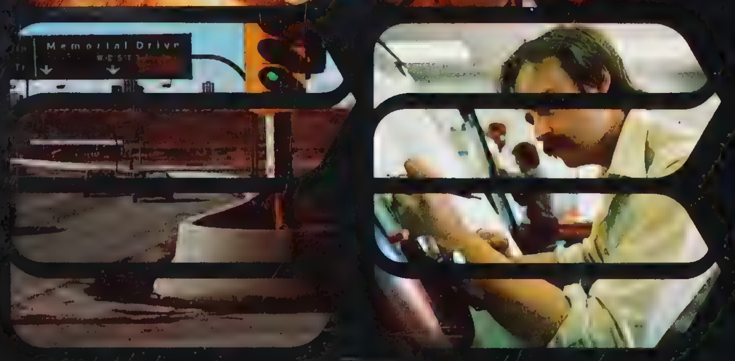
Ste. 148, 4550 Post Oak Place,
Houston, Texas 77027
Telephone (713) 629-7040

Calgary Alberta
Ronalds Western

Oil and Gas

Manufacturing

Service



Supply

Contractors to the Bralorne group of companies.

Bralorne Gold Mine

Your Company continues to follow a strategy of concentrating its efforts on energy-related businesses while developing, wherever practical, existing mineral properties through joint venture agreements with partners who have demonstrated technical ability.

In this regard the Company has entered into an agreement with E & B Explorations Inc. to undertake a program of exploration and, if viable, development of the Bralorne gold mine. The key elements of the agreement are as follows:

(a) Expenditure by E & B of $1,000,000 before March 31, 1981 in property assessment work.

(b) Option to spend a further $2,000,000 by March 31, 1982 to earn a staged 20 per cent interest in the property.

(c) A further option to spend an additional $2,000,000 by June 30, 1983 to earn a further staged 30 per cent interest in the property.

Assuming successful completion of each of the above stages, Bralorne and E & B would then be 50 per cent joint venture partners with E & B as the operator. Timing for expenditures as above is optimum and could be accelerated based on results.

Yours very truly,

Peter Paul Saunders
Chairman

F. William Fitzpatrick
President

August 7, 1980

ALCRAFT CALGARY
LITHOGRAPHED IN CANADA

BRALORNE RESOURCES LIMITED

file

1980 SECOND QUARTER REPORT

FIRST HALF HIGHLIGHTS

($000)	1980	1979	%Change
Gross revenue	$101,171	$60,077	+68
Cash flow from operations	15,968	8,160	+96
Net income	7,669	4,501	+70
Per share:			
Cash flow from operations	79¢	41¢	
Net income	38¢	22¢	

BRALORNE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE PERIOD ENDED JUNE 30, 1980

(thousands of dollars)

	Six months ended June 30 1980	1979
Sources of working capital:		
Cash flow from operations	**$15,968**	$ 8,160
Long-term debt	**13,501**	15,123
Sale of assets	**281**	353
Issuance of common shares	**3,209**	—
Prepaid gas sales	**578**	—
	33,537	23,636
Uses of working capital:		
Oil and gas interests	**4,612**	2,222
Property, plant and equipment	**9,450**	3,236
Reduction in long-term debt	**1,912**	2,648
Investment in affiliated company	**—**	8,759
Acquisition of subsidiary (net of working capital acquired)	**—**	5,137
Dividends	**1,002**	668
Minority interest of dividend from subsidiary	**246**	—
Increase in long-term receivables	**3,355**	306
	20,577	22,976
Increase in working capital	**12,960**	660
Working capital, beginning of period	**25,875**	11,826
Working capital, end of period	**$38,835**	$12,486

UNAUDITED

Bralorne Resources Limited
2910 - 205 - 5th Ave. S.W.
Calgary, Alta. T2P 2V7
Telephone: (403) 261-9060

On the cover:
Donnelly 3-17-77-21 W5M is one of three successful exploratory wells that Bralorne has drilled this year in the Donnelly area south of Peace River, Alberta. Photo by Kel Maxwell.

CONSOLIDATED STATEMENT OF INCOM

(thousand

Gross revenue
Expenses:
Operating, administrative and general
Interest
Loss (gain) on foreign exchange

Cash flow from operations before income taxes
Current income taxes

Cash flow from operations

Non-cash charges:
Depreciation and amortization
Depletion
Deferred income taxes
Minority interest
Other

Net income

Per share:
Cash flow from operations
Net income

CONSOLIDATED

(thousand

ASSETS
Current assets
Long-term receivables, other assets
Capital assets — net:
Oil and gas interests
Property, plant and equipment
Mining interests

Investment in affiliated company
Intangible assets

LIABILITIES
Current liabilities
Long-term debt
Deferred income taxes
Minority interest
Shareholders' equity

Approved by the Board:
Peter Paul Saunders, Director
F. W. Fitzpatrick, Director

UNAU

OR THE PERIOD ENDED JUNE 30, 1980
dollars)

Three months ended June 30 1980	1979	Six months ended June 30 1980	1979
$50,644	$32,730	**$101,171**	$60,077
38,809	25,833	**75,941**	47,047
2,900	1,198	**5,348**	2,190
774	(38)	**366**	181
42,483	26,993	**81,655**	49,418
8,161	5,737	**19,516**	10,659
1,972	1,573	**3,548**	2,499
6,189	4,164	**15,968**	8,160
1,500	782	**3,069**	1,442
308	362	**760**	774
968	554	**3,252**	1,447
609	77	**1,358**	189
(71)	(89)	**(140)**	(193)
3,314	1,686	**8,299**	3,659
$ 2,875	$ 2,478	**$ 7,669**	$ 4,501
31¢	21¢	**79¢**	41¢
14¢	12¢	**38¢**	22¢

LANCE SHEET
dollars)

	June 30 1980	1979
....	**$ 86,300**	44,833
....	**4,522**	1,133
....	**32,663**	24,141
....	**40,068**	22,435
....	**942**	973
	73,673	47,549
....	**—**	8,759
....	**11,723**	8,677
	$176,218	$110,951
....	**$ 47,465**	32,347
....	**53,704**	32,784
....	**15,476**	8,941
....	**7,815**	644
....	**51,758**	36,235
	$176,218	$110,951

ED

To the Shareholders:

Activity in the second quarter was highlighted by continued fiscal growth, excellent results from drilling activity and land acquisition in northern Alberta. The oil and gas activity is of particular note since we believe that exploration to date and the proposed exploration program at Donnelly, which is outlined below, could result in significant increases in the natural gas reserves of the Company.

Financial Review

The Company achieved record volume and operating income levels in almost all profit centres in the second quarter. However, the favourable impact of this growth was offset to some extent by the combined effect of high interest rates and the strengthened Canadian dollar which resulted in a substantial negative foreign exchange adjustment in this quarter. In addition, both contractual and take-or-pay shut-in of portions of the Company's Canadian natural gas production capability reduced net income.

Gross revenue in the first half of 1980 was $101,171,000, which was $40,094,000 or 68 per cent more than the same period last year. Approximately one-half of this revenue growth was derived from the Company's 51 per cent interest in Mark Products, Inc., acquired at mid-year 1979, with the balance reflecting a broadly based increase in demand for the Company's products and services.

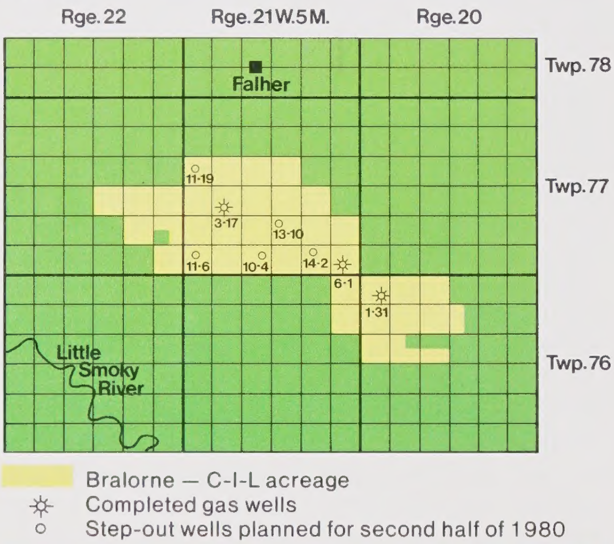
Cash flow from operations in the initial six months of 1980 of $15,968,000 or 79¢ per share (reflecting the recent 3-for-1 stock split) was 96 per cent higher than the $8,160,000 or 41¢ per share first half 1979 result. In addition to acquisitions and higher activity levels in our various plants, increased natural gas shipments in Canada this year have contributed materially to cash flow growth.

Net income to date in 1980 of $7,669,000 or 38¢ per split share was 70 per cent more than the $4,501,000 or 22¢ per split share result for the first half of last year.

Operations Review

In the first half of 1980 the Company invested $9,450,000 in new plant and equipment, divided almost equally between our Canadian and U.S. plants. These capital expenditures are primarily directed at expanding existing facilities to meet increasing demand and to exploit opportunities in related product areas. In Canada, key investments involved a 50 per cent expansion of Barber's compressor plant which will be completed in the third quarter, expansion of Jarco's tool inventory, and expansion of the housing lease fleet at Crown Caterers. In the United States, Mark Products is in the process of significantly expanding its geophone, seismic cable and larger dimension cable production capability while Triangle Grinding has moved to create an in-house tool manufacturing capability.

Donnelly



Total oil and gas investments in the first half amounted to $4,612,000. We expect that investment level to double in the second half subject to a continuing favourable economic and political climate.

In addition to investment in the search for new reserves of oil and gas in both Canada and the United States, significant investments are being made in 1980 to further increase our production capability under existing Canadian area contracts (Medicine Hat) and development drilling on contractual areas committed to the Canadian pre-build section of the Alaska gas pipeline.

We are particularly pleased to report that the Company, with its partner C-I-L Inc., has experienced considerable success in its drilling program in the Donnelly area of northern Alberta, some 70 kilometres south of Peace River. Bralorne and C-I-L as equal partners now hold a 100 per cent working interest in 24,000 contiguous acres in the prospect area.

As illustrated in the Donnelly map in this report, three successful wells have been drilled to date and production casing run to depths of 1 280 and 1 340 metres in beds of Mississippian age. Based on bore hole logs on these three wells, and on open hole drill stem tests and minor production testing in one well only, gas pays have been indicated in five horizons. Test results in the individual zones range from a low of 189 thousand cubic feet per day to 7,600 thousand cubic feet per day. Based on these very preliminary results it is estimated that reserves could be in the order of 10 to 12 billion cubic feet per section around each of the three wells drilled to date.

While reserves from the play are not currently dedicated to a gas contract it is proposed to drill up to five additional wells in this area (as shown on the map) in the second half of the year to more clearly delineate reserve potential.

Acquisition

On August 7, 1980 Bralorne, through its wholly owned subsidiary, Bralorne International Inc., completed acquisition of a 100 per cent interest in Supreme Contractors, Inc., a privately-owned oil field service company located in Lafayette, Louisiana. Supreme provides a variety of production-related services including road and site preparation for drilling locations and hook-up of production equipment during the completion of oil and gas wells.

The business will continue to be operated by the existing management. We are pleased to welcome all the employees of Supreme